

# Telstra Super Report 2009

## Report o CEPU Communications Divisional Conference/Executive

The 2008/2009 financial year was another difficult year for Telstra Super's investment performance.

Telstra Super remains the largest corporate superannuation fund in Australia with over \$9B of Funds under Management (FUM) and approximately 99,000 members albeit over 62,000, or 63%, are non Telstra employees.

### **Membership Breakdown**

	<b>June 2008</b>	<b>%</b>	<b>June 2009</b>	<b>%</b>	<b>% Movement</b>
Defined Benefit	11,335	12%	9,781	10%	-13.7%
Other TCL Employees	26,735	28%	26,477	27%	-1.0%
Non TCL Employees	57,536	60%	62,677	63%	+8.9%
<b>Total</b>	<b>95,606</b>		<b>98,935</b>		<b>+3.5%</b>

### **Aggregate Balance Breakdown June 2008 and June 2009**

	<b>June 2008</b>	<b>%</b>	<b>2009</b>	<b>%</b>	<b>% Movement</b>
Defined Benefit	\$3.13 B	31%	\$2.93 B	31%	-6.38%
Other T Employees	\$1.72 B	17%	\$1.55 B	16%	-9.88%
Non T Employees	\$5.24 B	52%	\$5.09 B	53%	-2.86%
<b>Total</b>	<b>\$10.09 B</b>		<b>\$9.57</b>		<b>-5.15%</b>

### **Year in Review**

#### **Investment Returns**

Telstra Super's two largest Member Investment Choices (MIC), Growth and Balanced delivered negative returns for the year of -14.4% and -10.6% respectively. The Defined Benefit (DB) divisions' Vested Benefit Index (VBI) moved from 100.6% in June 2008 to 79.5% in June 2009, leaving Telstra with a funding deficit of \$579M. (Refer Note 1 below)

Most asset class performed poorly particularly Equities and Property, the one significant exception was the Cash option. The year saw the assets held by Telstra Super fall by nearly a \$1B fall when Telstra deficit to the Defined Benefit fund is factored in. The investment environment has been particularly bearish during the first 8 months of the financial but the past four month has seen markets rally as the world economy starts to pull out of recession.

The chart below shows the Telstra Super Member Investment Choice Product returns for this year

	Growth	Balanced	Conservative	Cash	Australian Shares	Int. Shares	Fixed Interest	Property
12 months	-14.42%	-10.62%	-3.30%	4.74%	-15.93%	-12.53%	3.78%	-35.96%
3 yrs	-3.43%	-1.01%	2.23%	5.23%	-1.55%	-4.87%	3.19%	-15.77%
5 yrs	4.18%	5.10%	4.99%	5.11%	8.29%	1.79%	3.88%	-3.27%

The chart below shows Telstra Supers relative peer performance against the SuperRatings Industry Survey as at 30 June 2009

	Growth	Balanced	Conservative	Cash	Australian Shares	Int. Shares	Fixed Interest	Property
12 months	30/82	28/113	50/105	16/84	41/86	10/87	30/41*	35/49
3 yrs	32/76	25/106	36/101	26/78	15/81	3/81	32/38*	27/43
5 yrs	23/68	16/101	22/91	19/71	6/62	1/57	18/29*	16/32

**Note :** *Telstra Super's Fixed Interest product does not fit the SuperRatings survey criteria The performance shown in the table are the rankings that would have been achieved if Telstra Super's Fixed Interest product was included in the survey.*

2008/2009 has not been a very good year from an Accumulation Fund members' point of view, they now represent more than 90% of Telstra Super's members.

### **Fund Growth**

The Fund also grew in members over the year. Membership accounts have now reached 98,935. Personal Plus (Non Telstra members) is 63% of the membership. The reason for this ongoing growth in membership has been a deliberate strategy of Telstra Super and has come about in part through the following:-

- Increasing the member capture each year over the past 10 years with the establishment a Roll-Over product (Personal Plus) in 1996.
- Provision of Financial Planning through Telstra Super Financial Planning (TSFP), a wholly owned subsidiary of Telstra Super Pty Ltd.
- Telstra's employment program (both retrenchments and new recruits).
- New employers such as Sensis, Foxtel and other associated employers.

### **Defined Benefit Funds:**

It should be noted that DB membership of Telstra Super is now less than 10% of the total fund

Telstra's contribution holiday which started in July 1998 ceased last year with the Vested Benefit Index (VBI) of the Defined Benefit Fund failing to 79.5% at 30 June 2009 from 100.6 at June 2008. In June 2007 the VBI was at 117.4%. Telstra recommenced contributions to Telstra Super in November 2008 in

accordance with Funding Deed between Telstra and Telstra Super (See Note 1). The rate of contribution for Telstra and associated Telstra group employees was set at 9% for accumulation members and 14 % for DB members. With a further decline in investment markets in the December quarter the Fund's Actuary set the contribution to 26% for DB members effective from 26 February 2009.

The next full actuarial review of the Telstra Defined Benefit Funds has commenced and is expected to be completed in December this year. It is likely though that Telstra will need to contribute to Telstra Super for its DB Members for some time yet.

**Note 1 :** *There is a Funding Deed between the Trustees of Telstra Super and Telstra which determines the level of contribution Telstra is obligated to pay the fund once certain VBI trigger points are reached. These trigger points revolve around the average level of the VBI over three month rolling periods. The contribution rates are designed to restore the VBI to above 100% within a reasonable timeframe – three to five years.*

The chart below shows the current state of play with the Defined Benefit funds

	2007	2008	2009
<b>Balance</b>	\$4.24 B	\$3.07 B	\$2.20 B
<b>Members</b>	14,224	11,188	9,654
<b>Returns (1 year)</b>	16.58%	-5.68%	-11.6%

#### **Accumulation Funds:**

Telstra Super has a number of Accumulation Funds where the earnings of the funds directly impact on the returns to members. The vast majority of these members will be negatively impacted by the poor investment returns this year

The chart below shows the current state of play with the Accumulation funds in terms of Funds Under Management (FUM) and member numbers over the past 3 years.

<b>Accumulation Members</b>	<b>2007</b>	<b>2008</b>	<b>2008</b>
<b>Telstra Corporation Employees (Bal)</b>	\$1.91 B	\$1.77	\$1.60
<b>Telstra Corporation Employees</b>	26,659	26,882	26,604
<b>Non-Telstra Corporation Employees (Bal)</b>	\$4.86 B	\$5.24 B	\$5.08 B
<b>Non-Telstra Corporation Employees</b>	48,494	57,536	62,677

### **Issue of Interests:**

#### **New CEO**

Following the resignation Terry McCredden the Telstra Super Board appointed Martin Crowe as the new CEO of Telstra Super. Martin was previously the funds Chief Financial Officer (CFO). Martin has had to contend with a difficult investment environment. Martin has appointed Christina Liosis his replacement as CFO (formerly from Cbus Super) and Kevin Moloney (formerly from Mercers) as General Manager Business Development & Marketing. Christina and Kevin are great acquisitions to the Telstra Super management team. The fund has a very talented senior management team and with Martin's leadership, Telstra Super remains a leader in the superannuation industry.

#### **Investment Consultants**

Another initiative undertaken by Martin was the review of Telstra Super's investment consultants. The outcome of the review led to the appointment of JANA Investment Advisers for three years. JANA along with Telstra Super's investment team are currently reviewing all of Telstra Super's investment strategies.

#### **Fee Reductions:**

In March last year an administration fee reduction was passed on to Personal Plus members. The fee now stands at .6% of FUM. The fee makes Telstra Super one of the most competitive Rollover Funds in the superannuation industry.

#### **Financial Planning**

Financial Planning has continued to grow at a rapid rate. The provision of Financial Planning has been pivotal to Telstra Super's membership growth. The fund, through its whole owned subsidiary Telstra Super Financial Planning Pty Ltd provides financial planning advice to members at no cost to the member. The financial planners are salaried and are not paid commissions, although they can obtain performance payments.

Financial Planning has also contributed significantly in bringing Public Offer members into the Fund. At 30<sup>th</sup> June 2009, Telstra Super had grown the Public Offer membership to 2,994 with \$181M FUM (3.0% of members and 1.9% of FUM).

#### **Telstra Super Website**

Currently Telstra Super's Website is being re-designed to enhance functionality available to members. Stage 1 of the project has been completed. Stage 2 will see employer being able to use the site to remit

employer contributions. This is particularly important for our Personal Plus members, many of who have employer contributions credited to their account. Telstra Super is also looking at how it can use its web presence to better service members through the likes of Web Seminars and other Web based services

### **Member Statements**

Telstra Super Members 2009 Annual Statements will be issued before the end of July. This represents an eight week improvement on last year's performance and is the second statement for the 2008/2009 year with the introduction of half yearly statements in January.

Telstra Super has re-engineered their processes in order to deliver this result and further improvements will see them commence quarterly statements in October this year.

### **Increase in Members moving to Pension phase**

It is also worth noting that the number of Telstra Super Pension accounts increased by 15.5% during the year. I expect that this will continue as more members move into the retirement phase of their lives.

### **Conclusion**

The past 12 months has been a difficult year for Telstra Super particularly given investment returns which will see many member balances reduced for the two years running.

Telstra Super's current investment performance reflects the behaviour of the financial markets. The fund is taking a long term view in its investment strategies and is well positioned for a market rebound that now appears to be underway.

Telstra Super is continuing work to improve services and engage members. This will continue into the future, and will support the fund's continued growth.

Telstra Super, in my view, is well a managed Superannuation Fund with a high calibre of the employees focused on providing the best possible service and assistance to its members.

**Gerry Kandelaars**  
Member Director Telstra Super